



Constantia Capital Merger-Arbitrage Strategy January 2025 Commentary

Our composite returned 1.41% in January, bringing returns to 5.07% annualized for the past 10 years and 5.26% annualized in over 13 years since inception.

In world markets, equities posted strong returns, led by European equities. The All Country World Index returned 3.4%. The S&P 500 returned 2.8% despite NVIDIA (the third largest stock in the index) falling 10.6% for the month. Fixed Income, as represented by the Bloomberg Aggregate Bond Index, rose 0.5% as inflation data was tamer than expectations. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 2.2% for the month.

Our Merger-Arb composite had a strong month despite bad news on two high profile deals, namely US Steel and Juniper Networks. Some of the highlights and lowlights were:

- Revance Therapeutics, being acquired by Crown Laboratories, had been a negative contributor in 2024 after agreeing to a reduced deal price of \$3.10 per share. However, one of Revance's distributors then made a counter-bid forcing Crown to increase their price to \$3.65. All of that resulted in a contribution of 24 bps for the month.
- Arcadium Lithium, being acquired by British based Rio Tinto, received CFIUS approval. Possibly due to some similarity to the US Steel deal, the spread had been unusually wide, and the market reaction after the CFIUS news resulted in a positive contribution of 20 bps for the month.
- Tripadvisor will be acquiring Liberty Tripadvisor for approximately \$0.26 per share in order to simplify its capital structure. That price is actually about 25% lower than where Liberty Tripadvisor shares had been trading, but a premium to its NAV. The resulting confusion caused the shares to trade at a wide spread relative to the deal price for a number of days after the announcement, resulting in a contribution of 8 bps for the month.
- Emerson Electric owns 57% of Aspen Technology, an application software company. They proposed to buy out the remainder of the company in November 2024 at \$240 per share. It is common in buyouts of a minority interest for the parent company (acquirer) to make an initial proposal and then ultimately agree to a higher price. As a result, Aspen immediately traded above the proposed price, at which point we bought a small position. During January, the companies came to a definitive agreement at \$265, resulting in a contribution of 8 bps for the month.
- Late in the month, the DoJ filed suit to block Hewlett Packard Enterprise's purchase of Juniper Networks, despite approvals in Europe and other countries. The companies quickly announced that they will fight the suit, and as a result Juniper's stock fell only modestly on the news, resulting in a negative contribution of 11 bps for the month and 9 bps since inception. We reduced our position to 0.5% from 1.5%.

- Surmodics, a stent and stent coatings manufacturer, is being acquired by GTCR Golder, a private equity firm. The stent market is competitive, but apparently the coatings market is less so. As a result, antitrust concerns have caused the spread to widen, resulting in a loss of 12 bps for the month. As a risk control measure, we have reduced our position to 0.5%.
- The long saga of Nippon Steel buying US Steel appeared to have come to a close when President Biden ruled to block the deal after CFIUS deadlocked on its recommendation (a very rare occurrence). However, the companies have sued to overturn his decision. We had already reduced our position considerably and the negative impact for the month was only 2 bps. Meanwhile, rumors began circulating that Cleveland Cliffs would resuscitate their bid for US Steel, and separate rumors that President Trump would approve the Nippon Steel deal despite his earlier comments to the contrary.

For the month, there were 22 new deals, while 19 closed. The number of deals in our portfolio remained stable at 132. Leverage remains elevated, but has fallen very slightly to \$125 of long positions for every \$100 of capital.

Constantia Capital Merger-Arbitrage: Performance as of January 31, 2025

Benchmark	Reporting Period	Returns (Gross) ²	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Gross)	Excess (Net)	Volatility	Sharpe Ratio
US\$ LIBOR/SOFR	Year-to-date	1.46%	1.41%	0.35%	1.11%	1.06%	N/A	N/A
	Latest 3 Years	5.65%	5.06%	4.33%	1.32%	0.73%	2.49%	0.29
	Latest 5 Years	5.03%	4.44%	2.71%	2.32%	1.73%	5.34%	0.32
	Latest 10 Years	5.65%	5.07%	2.07%	3.58%	3.00%	4.07%	0.74
	Since Inception ¹	5.82%	5.26%	1.63%	4.19%	3.62%	4.26%	0.85

¹ Returns annualized, since inception date 11/1/2011

² Returns annualized for periods in excess of one year

³ Net returns after performance fee, which a small number of qualified clients have elected as of the date above